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How to Daytrade Bullish Intraday Chart Patterns

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MODULE 1

● Main Points:

- There are two primary 'bullish' stock buys to become familiar with: buying into an uptrend and buying on an anticipated 'bottom bounce'.
- Within those two categories there are several specific intraday chart patterns that you should gain familiarity with. These patterns show you how and when to enter trades based on what you see.
- Remember that from a "big-picture" perspective, you are looking for several signals to converge, telling you when you have the best chance of making a winning trade. This includes the overall market trend, the specific 3- and 13-minute trend of your stock, volume and time-of-day. Then, we look at the intraday trend and level 2 to enter specific profitable trades.
- Becoming a 'sniper' trader means you are very selective, like a hunter waiting for prey. 95% of your energy is spent figuring out when the time is right to buy your stock. Our automatic small and trailing stops make selling the easiest part (contrary to what you hear out there; it's the 'should I buy now?' that's agonizing; once you're in the trade you firmly stick with your trade rules no matter what.)
- I do not advocate highly active trading, particularly in your first year. Be content to make 1-2 trades per day, maybe up to 4 or 5. You can make a living at it. I average 80 round trips a month, or 4 buy/sells per trading day.
- Ok, let's look at some chart patterns you need to recognize:

Uptrending Chart Patterns for Daytrading: Breakouts, Triangles, Steady Channels

- **BREAKOUTS:** When a chart has been in a steady "trading range" for a length of time (5 minutes to half an hour, or an hour or so during the lunch break) and breaks above the resistance line on volume. This happens after the tug-of-war between buyers and sellers shifts in favor of buyers, with sellers being finished.
- Note: Level 2 can help you spot these as well, when a given market maker who's been sitting on the inside ask cleaning up a client order is finally finished and steps off the

ask; the stock price will pop up when he goes away. He may flip to the bid as well, if he stays through 10k shares or so of buying he may be a net buyer at this point and the stock price will rise. We'll cover more level 2 in Module 2.

- See if you can spot the breakouts in these plays:

Breakout Play #1:

This was a buy as soon as it broke through its resistance at 42 on decent volume. It climbed another 3/4 of a point before a selling volume spike occurred.

This sell signal tells you it's time to take your profits and run. You had at least 15 minutes on both the entry and exit to make 5/8 point. Easy money.



Breakout Play #2:

This stock had a hard time breaking through 12 3/4 resistance. When it did, it ran up way too fast for most of us to get on board with.

The easy play? Wait for a retracement to the resistance level, buy it when you see it's consolidated above 12 3/4. Buy on the uptrend following the breakout/selloff. Be cautious and set your stop right underneath the support line, in this case I'd set it at 12 5/8.



Breakout Play #3:

Oftentimes the stock price will set an initial resistance (and total day's range) within the first hour. In this case, the fact that we had buyers push it up past the day's resistance line (a new high=high-of-day) tells us more buying is likely ahead.

The volume surge at the bottom confirms this, so it's a buy at 51 3/4 or so, using trailing stops (or a stop set at right under the resistance line). Easy play.





Uptrending TRIANGLES: Look at the triangle that's drawn in white lines on this CPQ chart. Triangles are one of the easiest and most profitable plays to spot. The buyers keep raising the lowest price they'll pay for the stock, while the sellers keep the price at the same resistance level. Finally, the point of the triangle narrows and a big price movement occurs, either up or down.

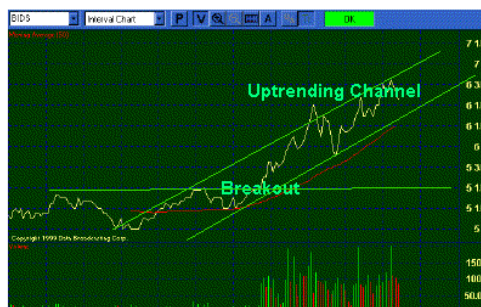
The buyers and sellers get closer and closer on the price they think is fair, followed by "a winner" - note that these can break to the downside as well, so: **Buy when you see the stock price break to the upside above the top (flat) resistance line by 1/8 point.** Immediately set a stop 1/8 - 1/4 point under the resistance line for protection.

This is what CPQ went on to do that day:



STEADY CHANNELS: predictable uptrending price movement that oscillates within a fixed range (eg 1/2 point). Buy off support in the channel and use trailing stops to lock in profit.

Hint: The **50MA** often provides an excellent uptrending 'support line' for stocks in an uptrend channel. See the red line in the chart to the right. >>



Bottom Bounce Chart Patterns for Daytrading:
Oversold Overnight Holds, 5%+ Intraday Drops, Strong RSI

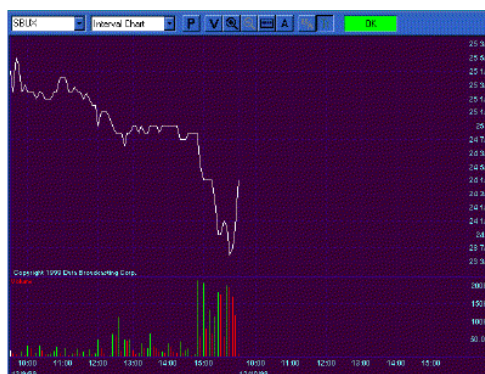
Oversold Overnight Holds: can be very profitable. Remember our oversold PZZA bounce (chart at right>>)? That's worth a quick 1 5/8 point in 20 minutes. These types of plays happen routinely in the market. Note they also hold the danger of a gap down on open.



Here's how to trade it...first, look at the 10-day chart to see **how often** your particular stock has gapped up on the open after end of day selling recently. Some stocks, you will observe, will either gap up or open flat during a timeframe of a week or two. Capitalize on these moves.

Oversold Overnight Bounce Play Example: SBUX

Look at this two-day chart of SBUX...it sold off from 25 1/2 to 23 3/4 on no news. It looked oversold, so I bought a conservative 500 shares for an overnight hold at 24 1/16. I sold premarket on 12/10 at 24 7/16...it went higher, but I was satisfied with a quick 3/8 (\$167) profit overnight.



12/09/1999 15:58:29	Bought	500 SBUX	24 1/16	\$-12,041.24
12/10/1999 09:26:52	Sold	500 SBUX	24 7/16	\$12,208.35

Intraday Channel Bottom

Bounce Plays: Continuing on w/SBUX that day, you can see it bounced off 24 1/8 3 times... a "triple bottom". That's a bullish pattern to watch for.

Buying off the bottom at 24 3/8 each time and selling up towards 25 resistance was also profitable. These are bottom plays because you're buying off what you hope will be the bottom of the price, usually at a resistance level.



As always, do not try to guess where the bottom is, let the market tell you, as evidenced by an uptick (higher highs, higher lows), with volume.

Look at this chart carefully.

Note the volume at the bottom of each bounce. If you do not see this, you may not have the real bottom. Where should you set your stop? at 23 15/16 (right under whole number support).

5% + Intraday Drops: If a stock suddenly sells off (and there's no bad news), you can try to find the bottom and buy the "dead cat bounce". I like to see at least -5% selloff w/no bad news as a high-probability place to consider entering a trade. (as soon as buyers come back in, that is!).

5% drop play: spls 21 1/8...see how the price dropped; there was no 'reason' for it, it made a good buy off near-whole number support at 21 1/8...good for a quick 1/4-3/8 point scalp.



Don't try to guess or anticipate the bottom, ever. Let the market tell you when it's done selling, not your perception of how far down the stock price can go. Wait for a volume reversal to prove you right. Buying bottoms is always risky, but it is one of my favorite plays.

Think of buying bottoms in this way: the stock price is like a shock

absorber spring; it can only be depressed so much before buyers come in and it starts to spring back up again. Likewise, as it gets extended upwards, it will contract and sell off again.

In summary, the 5% intraday drop tells you to be on the lookout for these oversold stocks (preferably ones that you follow regularly) as potential buys.

Strong RSI Bottomfishing: Finally, consider buying stocks that drop less than others in their sector do during a market downtrend.

Say for example you're playing semiconductors (\$SOX; INTC AMAT KLAC XLNX ALTR) and you see the \$SOX and most of the semis tanking except for XLNX, which is holding up fairly well during the selling. What's the play? Have a Buy XLNX order ready for when the market and the \$SOX turns back up...XLNX should be one of the first ones to run.

We say it has strong relative strength in its sector; people would rather sell other stocks. Look at the RSI line too in comparison; if the other stocks are down near the 20 and XLNX for example is still 40-50 then we can feel confident that it should run strongly when the rest of the market starts to head back up.

As someone said, "Buy strong stocks. Sell weak stocks." Not the other way around.

SUMMARY:

Recognizing and using the basic daytrading chart patterns on this page will help alert you to high-percentage trading opportunities. Get to know them, and papertrade these patterns using your 4-5 favorite stocks for at least 3 months. See how your predictions and the patterns match up. You'll get good at this in time.

Too bad the books don't give you these fine points you need to win. This is experience talking on the page; I hope it helps you become a more successful daytrader! **Alright, lets move on the the bearish patterns shall we? Click on...**



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